



DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General
Denton Field Office - Audit Division
3900 Karina Street, Room 224
Denton, Texas 76208

April 30, 2003

MEMORANDUM

TO: David I. Maurstad, Regional Director
FEMA Region VIII
Tonda L. Hadley

FROM: Tonda L. Hadley, Field Office Director

SUBJECT: Audit of the State of South Dakota
Administration of Disaster Assistance Funds
Audit Report Number DD-06-03

Attached for your review and follow-up action are five copies of the subject audit report prepared by Leon Snead & Company P.C., an independent accounting firm under contract with the Office of Inspector General. In summary, Leon Snead & Company P.C. determined that South Dakota Division of Emergency Management (SDDEM) could improve certain financial and program management procedures associated with the administration of disaster assistance funds.

On March 3, 2003, you responded to the draft audit report, stating that you agreed with all of the recommendations. Your actions resolved and closed Recommendations B.1-2, B.2, and B.3-1 and no further action is required. Recommendations A.1, B.1-3, and B.3-2 are resolved but cannot be closed until we receive documentation that you implemented the planned actions. In order to resolve and close Recommendations B.1-1, B.4-1, and B.4-2, we need actual target dates of completion and documentation of actions taken. For Recommendation B.4-2, please develop a plan of action to ensure that supporting documentation, or certifications that supporting documentation exists, are obtained from sub-grantees before paying future claims.

Pursuant to FEMA Instruction 1270.1, please advise this office in writing by June 30, 2003, of actions planned, together with target completion dates to implement the recommendations for the findings that require further action.

We thank your staff and SDDEM's staff for the courtesies extended the auditors during their fieldwork. If you have any questions concerning this report, please contact Charles Riley or me at (940) 891-8900.

Attachments

April 30, 2003

Federal Emergency Management Agency
Office of Inspector General
Washington, DC 20472

Leon Snead & Company P.C. conducted an audit of the South Dakota Division of Emergency Management, (SDDEM) to assess its compliance with the Robert T. Stafford Disaster Relief and Emergency Assistance Act (as amended) and applicable Federal regulations. The audit was conducted at the request of the Federal Emergency Management Agency, (FEMA) Office of Inspector General.

The audit objectives were to determine if SDDEM administered the grant programs according to Federal regulations, and accounted for, reported and used FEMA program funds properly. We found that SDDEM needed to improve its procedures for: (1) performing and documenting program operations; (2) completing plans for the Hazard Mitigation Program; and (3) documenting and evaluating its internal and management control systems.

The audit was performed under the authority of the Inspector General Act of 1978, as amended, and according to generally accepted government auditing standards, FEMA's Office of Inspector General audit guide and 44 CFR. Although the audit report comments on certain financial related information, we did not perform a financial statement audit the purpose of which would be to render an opinion on the financial statements. The scope of the audit consisted of financial and program activities for six Presidential disaster declarations open as of September 30, 2001. We reviewed 371 of the Public Assistance, Hazard Mitigation and Individual and Family Grant Program projects or applicants with cost totaling about \$24 million.

An exit conference was held to discuss the findings and recommendations included in the report with officials from Region VIII, FEMA on December 17, 2002 and the SDDEM on December 19, 2002. We have included the written comments from FEMA and SDDEM as Attachment B.

The actions being taken by management appear adequate to resolve most of the conditions cited in this report; however, one recommendation cannot be resolved and several of the recommendations cannot be closed until the planned corrective actions have been completed, which we have cited in the body of the report.

Leon Snead & Company appreciates the cooperation and assistance received from both FEMA and SDDEM personnel, during the audit.

Sincerely,

Leon Snead & Company, P.C.

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I. EXECUTIVE SUMMARY

Leon Snead & Company, P.C. has completed an audit of the administration of disaster assistance grant programs by the South Dakota Division of Emergency Management (SDDEM). The audit objectives were to determine if SDDEM administered the grant programs according to Federal regulations, and accounted for, reported and used FEMA's program funds properly. This report focuses on the systems and procedures within SDDEM for assuring that grant funds were managed, controlled, and expended according to the Robert T. Stafford Disaster Relief and Emergency Assistance Act (as amended) and applicable Federal regulations.

Our audit focused on the six disasters that were open as of September 30, 2001. The six disasters had total obligations of about \$89.9 million (Federal share \$74.4 million), and total expenditures of about \$82.5 million. We reviewed 371 of the Public Assistance (PA), Hazard Mitigation (HM), and Individual and Family Grant (IFG) projects or applicants with costs totaling about \$24 million, or about 27 percent of total obligations. We completed our audit fieldwork on June 27, 2002.

A synopsis of our findings regarding both financial and program management are shown below. They are discussed in more detail in the body of the report, with recommendations to improve SDDEM's management procedures, strengthen internal controls, and correct areas of noncompliance. Except for the findings contained in this audit report, nothing came to our attention during the audit that questioned the accuracy of information contained in the financial reports submitted to FEMA.

Financial Management

- SDDEM did not formally document and evaluate its internal and management control systems.

Program Management

- SDDEM did not always perform PA project close-out procedures, prepare quarterly reports, or document the results of final inspections of large projects. In addition, SDDEM did not document its monitoring of sub-grantees and did not require sub-grantees to provide progress reports for ongoing projects.
- SDDEM did not always prepare or update HM Administrative Plans after disasters, and FEMA obligated funds before approving the administrative plan.
- SDDEM did not update and distribute State HM Plans to affected agencies on a timely basis.

- SDDEM reimbursed sub-grantees on the basis of estimates or other cost distribution methods instead of actual costs.

The actions being taken and planned by management appear adequate to resolve all findings except finding B.4. An additional response is needed from the Regional Office indicating the actions taken or planned to ensure that supporting documentation is received before payments are made to the sub-grantees. The issued is addressed in the auditor's analysis for recommendation number 2; finding B.4.

II. INTRODUCTION

SOUTH DAKOTA DIVISION OF EMERGENCY MANAGEMENT (SDDEM)

SDDEM is a division of the South Dakota Department of Military and Veterans Affairs. The Division was authorized under the Civil Defense Act of 1949, as amended by House Bill 1077 of 1992. Its mission is to reduce loss of life and property and to protect South Dakota's critical infrastructure from all types of hazards, through a comprehensive, risk-based emergency management program of preparedness, response, recovery and mitigation.

The Director is appointed by the Governor and reports directly to the Adjutant General, South Dakota Department of Military and Veterans Affairs. As of June 3, 2002, the division had 18 permanent employees and was organized into 3 branches.

Our audit concentrated on the PA, HM, and IFG Programs. Two permanent employees managed these programs on a daily basis. Other SDDEM permanent employees assisted in carrying out the functions during disasters.

THE DISASTER ASSISTANCE PROGRAMS

The Robert T. Stafford Disaster Relief and Emergency Assistance Act (as amended) governs disasters declared by the President. Following a major disaster declaration, the Act authorizes FEMA to provide various forms of disaster relief to the State, as the grantee, and to State agencies, local governments, and eligible private nonprofit organizations as sub-grantees. The Code of Federal Regulations (44 CFR) gives further guidance as to the requirements for and administration of disaster relief grants. On October 30, 2000, the President signed the Stafford Act amendments into law (Public Law 106-390). The amendments are effective only for disasters declared after October 2000.

Public Assistance Grants

FEMA awards PA Grants for the repair/replacement of facilities, removal of debris, and emergency protective measures necessary as a result of a disaster. To receive a PA Grant, a designated representative of the organization must sign a Notice of Interest. After the applicant completes the Notice of Interest, FEMA schedules an inspection of the damaged facilities. The inspection team consists of FEMA, State, and local officials. The inspection team prepares a Project Worksheet (PW) formerly called a Damage Survey Report (DSR) identifying the eligible scope of work and estimated cost for the project. The PW or DSR is sent to FEMA for review and approval. Approval by FEMA serves as the basis for obligating PA Grant funds.

Hazard Mitigation Grants

FEMA awards HM Grants to states to help reduce the potential of future damage to facilities. The State must submit a letter of intent to participate in the program, and sub-grantees must submit a hazard mitigation grant proposal. The State is responsible for setting priorities for the selection of specific projects, but FEMA must provide final approval. FEMA also awards sub-grants to local governments and eligible private non-profit organizations. The amount of assistance available under this program must not exceed 20 percent of the total assistance provided under the other assistance programs.

Individual and Family Grants

FEMA awards IFGs to individuals or families who, as a result of a disaster, are unable to meet disaster-related necessary expenses and needs. To obtain assistance under this grant, the Governor of the State must express an intent to implement the program. This expressed intent includes an estimate of the size and cost of the program. The grantee has the responsibility for monitoring the program to ensure that the objectives and requirements are met. FEMA provides an administrative fee to the grantee for administrative costs that cannot exceed 5 percent of the Federal grant program payments.

Administrative Funds

FEMA provides three types of administrative assistance to cover the costs of overseeing the PA and HM Grant Programs. First, an administrative allowance is provided to cover the “extraordinary” cost directly associated with the management of the program, such as overtime wages and travel costs. This allowance is determined by using a statutorily mandated sliding scale with payments ranging from one-half to 3 percent of the total amount of Federal disaster assistance provided to the grantee. Second, FEMA can award an administrative allowance referred to as “State Management Grants” on a discretionary basis to cover the State’s ordinary or regular costs directly associated with the administration of the program. Third, FEMA can award an administrative allowance for activities indirectly associated with the administration of the programs.

III. OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The FEMA Office of Inspector General (OIG) engaged Leon Snead & Company, P.C. to determine if the State of South Dakota (1) administered FEMA's Disaster Assistance Grant Programs according to Federal regulations, and (2) accounted for, reported and used FEMA program funds properly.

SCOPE

The audit included reviews of both financial and program activities for the PA, HM, and IFG programs. The universe subject to audit included six declared disasters in which about \$89.9 million were controlled by the Grantee (see Attachment A). The cut-off date for the audit was September 30, 2001. The specific disasters open as of September 30, 2001, are as follows:

| <u>Disaster Number</u> | <u>Disaster Type</u> | <u>Date Declared</u> | <u>Assistance Provided</u> |
|----------------------------|---------------------------------------|--------------------------|--------------------------------|
| 1052 | Flooding | 05/26/95 | PA, HM |
| 1173 | Severe Flooding and Winter Storms | 04/07/97 | PA, IFG, HM |
| 1218 | Severe Storms, Tornadoes, and Floods | 06/01/98 | PA, IFG, HM |
| 1280 | Severe Storm Tornadoes, and Floods | 06/10/99 | PA, IFG, HM |
| 1330 | Severe Winter Storms and Floods | 05/19/00 | PA |
| 1375 | Severe Winter Storms, Floods, and Ice | 05/17/01 | PA |

The six disasters included in our audit scope had obligations of about \$89.9 million, and total expenditures as of September 30, 2001, of about \$82.5 million. Our tests included 287 PA projects in four disasters, 19 HM projects in four disasters, and 65 IFG applicants in two disasters with costs totaling about \$24 million, or 27 percent of total obligations.

The audit encompassed the functional areas of financial and program management, with emphasis on the current SDDEM procedures and practices for program administration and oversight. We conducted our fieldwork during the period of May 13, 2002, through June 27, 2002.

METHODOLOGY

We performed the audit under the authority of the Inspector General Act of 1978, as amended, and according to generally accepted government auditing standards as prescribed by the Comptroller General of the United States (Yellow Book-1994 Revision), FEMA's Office of Inspector General Audit Guide, and 44 CFR.

We interviewed key officials and reviewed documents at the FEMA Region VIII office in Denver, Colorado, to understand how the region oversees the disaster programs in South Dakota. We conducted interviews and reviewed documents at SDDEM's office in Pierre, South Dakota to gain an understanding of the grantee's organizational structure and basic procedures for managing the disaster assistance grant programs.

We selected and tested records of individual recipients and representative projects to determine whether disaster assistance projects and programs had been conducted in compliance with applicable regulations.

We focused on evaluating SDDEM's systems and procedures and identifying systemic causes of internal control weaknesses or noncompliance situations. We reviewed all aspects of program management including application, approval, monitoring, and reporting. Our financial management review covered the policies and procedures relating to cash management, matching, disbursing, and reporting. We also evaluated compliance with the standards for financial management systems set forth in 44 CFR 13.20.

We reviewed the results of audits of sub-grantees performed by FEMA, Office of Inspector General, and Single Audits of SDDEM performed by the State Legislative Auditor for South Dakota. We also reviewed the Legislative Auditor's working papers relating to the tests performed at SDDEM.

We were not engaged to, and did not perform, a financial statement audit, the objective of which would have been the expression of an opinion on specified elements, accounts, or items. Accordingly, we do not express an opinion on the costs claimed for the disasters under the scope of the audit. Had we performed additional procedures or conducted an audit of the financial statements according to generally accepted auditing standards, other matters might have come to our attention that would have been reported. This report relates only to the accounts and items specified and does not extend to any financial statements of SDDEM or the State of South Dakota. The audit also did not include interviews with SDDEM sub-grantees or technical evaluations of the repairs of damages caused by the disasters.

IV. FINDINGS AND RECOMMENDATIONS

We found that SDDEM needed to improve its procedures for: (1) performing and documenting program operations; (2) completing plans for the HM Program; and (3) documenting and evaluating its internal and management control systems. Except for the findings contained in this audit report, nothing came to our attention during the audit that questioned the accuracy of the information contained in the financial reports submitted to FEMA. We also found some instances of noncompliance with FEMA's laws and regulations.

A. FINANCIAL MANAGEMENT

A.1 Lack of Internal Control Documentation and Evaluations

SDDEM had not documented and evaluated its internal and management control systems to ensure that its controls were adequate and being followed. SDDEM officials, through day-to-day supervision, verbally assigned operational duties in the program and accounting areas, but had not developed operating and procedures manuals describing how duties were to be assigned and performed. In addition, management had not evaluated the effectiveness of the verbally assigned duties to ensure that adequate internal and management control systems existed. As a result, SDDEM could not ensure that its controls were being followed and would remain effective despite changing conditions to reduce the risk of unidentified errors or irregularities.

Effective control and accountability must be maintained for all grantee and sub-grantee cash, real and personal property, and other assets {44 CFR 13.20 (a)(3)}. Good internal control management procedures also require that the systems be documented and evaluated to ensure that all control procedures are followed and the personnel responsible for each control function are identified. Five standards for internal control; Control Environment, Risk Assessment, Information and Communications, Control Activities, and Monitoring have been established to provide reasonable assurance that the objectives of an organization are being met.

We found that SDDEM's management had established an adequate control environment, performed some risk assessments, and implemented information and communications measures. This was evidenced by the several effective controls and accountability measures SDDEM had implemented that adequately safeguarded assets and ensured accurate financial reporting. Personnel with the authority to approve grant funding could not approve payment of funds, and personnel with the authority to approve payments of Federal funds could not request cash draw downs of funds. Employees maintained detailed spreadsheets to ensure proper cash management and accurate financial reporting.

Although SDDEM management had verbally assigned duties to ensure that effective controls and accountability measures existed, they had not documented policies, procedures, and techniques describing these processes and assigning the duties to be performed by each position. In addition, SDDEM officials had not developed a method of evaluating these controls to ensure their continued effectiveness.

Conclusion and Recommendation:

SDDEM had not documented its internal control procedures or established a means of periodically evaluating the effectiveness of its internal controls. The lack of documented procedures could lead to weaknesses in internal controls due to changing conditions and personnel turnover and thereby increase the risk of errors and loss of funds and property.

The Director, FEMA Region VIII, should require SDDEM to document its internal control procedures and establish a system of review to determine if they are working as intended and the system is operating effectively.

Management Response and Auditor's Analysis:

The Director, FEMA Region VIII, responded that the State will complete an Internal Control Procedure and submit it to the Region by September 30, 2003. The plan will document procedures already in place that ensure effective controls and accountability. This plan will be reviewed annually by the State for any needed updates. The annual review of the plan will be documented.

The actions being taken by management appear adequate to resolve the recommendations cited, and the finding has been resolved, pending follow-up audit work that will be conducted at a later date.

B. PROGRAM MANAGEMENT**B.1 Management of the Public Assistance Program**

SDDEM did not always perform required close-out procedures; did not prepare required quarterly reports for two disasters; did not document its ongoing monitoring of sub-grantees and/or the results of its final inspections of large projects; and did not require sub-grantees to provide progress reports for ongoing projects. Existing internal control procedures had not required appropriate levels of oversight and documentation. As a result, SDDEM and FEMA managers were not systematically receiving information needed to monitor the progress of ongoing projects.

Grantees must certify that reported costs were incurred in the performance of eligible work, and that the approved work was completed {44 CFR 206.205(b)}. Grantees must also submit quarterly reports describing the status of projects where a final payment of the Federal share has not been made {44 CFR 206.204(f)}. Grantees must monitor sub-grantees to assure compliance with Federal requirements, and that performance goals are met {44 CFR 13.40(a)}.

During our audit of PA operations, we reviewed 34 sub-grantees to ensure that SDDEM had complied with Federal regulations administering FEMA programs. We found that, generally, SDDEM had complied with Federal regulations; however, the following areas needed strengthening:

Documentation regarding ongoing monitoring of sub-grantees, and/or the results of SDDEM's final physical inspections of large projects was not always contained in the applicant files. For projects that SDDEM recommended be closed, each file contained a letter certifying that reported costs were incurred for eligible work, that the approved work was completed according to the Project Worksheet, and the payments for the project were made according to Federal regulations. However, we were unable to locate documentation in the file to support how SDDEM arrived at these determinations. We also could not determine from the applicant files that close-out procedures had been performed for two of the sub-grantees with large projects.

When we discussed SDDEM's monitoring procedures, the PA Officer agreed that, apparently through oversight, the required close-out procedures had not been performed for the two identified sub-grantees. The PA officer advised us that he discusses the progress of large projects with sub-grantees on a monthly basis, and more frequently if needed. The PA officer further stated that he performed physical inspections of large projects after they were completed to ensure that they were completed according to Project Worksheet requirements.

However, he had not documented the discussions with sub-grantees or the results of his inspections.

We also noted that SDDEM did not always prepare required quarterly reports for Disaster Numbers 1173 and 1218. In addition, SDDEM did not require its sub-grantees to submit periodic progress reports that would provide comparisons of actual performance to objectives established for the period, cost information, and other pertinent information. These sub-grantee progress reports would provide the information necessary to prepare the State's required quarterly reports.

The PA officer agreed that progress reports had not always been prepared for Disasters Number 1173 and 1218. He stated that FEMA's Regional Office had agreed that the quarterly reports were not necessary. He further advised us that because SDDEM does not control a significant number of open large projects, he now prepares the required quarterly progress reports based upon his knowledge of the large projects. The PA officer stated that he does not require sub-grantees to prepare written progress reports because he obtains sufficient information on the status of the projects from his discussions with the sub-grantees.

Conclusion and Recommendations:

SDDEM did not always perform and document inspections of large projects, did not require sub-grantees to submit periodic progress reports, and did not always submit required quarterly progress reports to FEMA. As a result, SDDEM and FEMA managers were not systematically receiving information needed to monitor the progress of ongoing projects.

The Director, FEMA Region VIII, should require SDDEM to:

1. Perform and document the required closeout inspections for the two cited sub-grantees.
2. Prepare and submit required quarterly reports to FEMA.
3. Document the results of its ongoing monitoring of sub-grantees and final inspections of large projects.

Management Response and Auditor's Analysis:

The Director, FEMA Region VIII, responded that the State will provide the certification for the two sub-grantees when the projects and sub-grantees are identified.

Based on the response received, the auditor provided state officials the project numbers for the two sub-grantees noted in the report. This information was provided on March 27, 2003. The actions being taken by management appear

adequate to resolve the recommendation, but it can not be resolved until a target date is established for the action to take place.

The Director, FEMA Region VIII, responded that the State has provided timely quarterly reports for all current disasters. Also, the response states that the State's approved PA Plan requires the timely submittal of the quarterly reports.

The Region's response indicates that quarterly reports are now being received for all open disasters. This would include Disaster Numbers 1173 and 1218 cited in the audit report. The action being taken by management appear adequate to resolve the recommendation, and the recommendation has been resolved, pending follow-up audit work that will be conducted at a later date.

The Director, FEMA Region VIII, responded that the State will modify the PA Administrative Plan to include documentation of all pertinent progress conversations with sub-grantees by September 30, 2003.

The actions taken by management appear adequate to resolve the recommendation, and the recommendation has been resolved, pending follow-up audit work that will be conducted at a later date.

B.2 Preparation and Approval of Hazard Mitigation Administrative Plans

SDDEM did not always prepare or update its HM Administrative Plans after each disaster declaration. The State had not followed Federal requirements when developing and updating HM Administrative Plans. As a result, the State did not have the most up-to-date plan for managing the HMGP. In addition, FEMA obligated Hazard Mitigation Grant Program (HMGP) funds prior to approval of the administrative plan.

Following each major disaster declaration, the State should prepare and submit to FEMA any updates, amendments, or plan revisions to meet current policy guidance or changes in the administration of the program {44 CFR 206.437(d)}. If the current plan does not require changes to meet the disaster, the State should notify FEMA within 90 days after a disaster declaration. Independent of the frequency of disaster declarations, the State should review and update the plan at least annually (HMGP Desk Reference, page 2-2). Funds should not be awarded until the FEMA Regional Director approves the administrative plan {44 CFR 206.437(d)}.

SDDEM had not prepared or updated administrative plans for five disasters that occurred between May 26, 1995, and May 19, 2000. FEMA approved the administrative plan covering these disasters on June 30, 2000. During this 5-year period, FEMA obligated \$13,056,777 for these disasters, of which \$7,044,280 was obligated before FEMA approved the administrative plan. The obligation dates ranged from 34 to 56 months after the dates of the disaster declarations. FEMA guidance required that Federal funds not be obligated until the administrative plan was approved by FEMA.

Conclusion and Recommendation:

SDDEM did not always prepare or update its HM Administrative Plans after each disaster declaration, and FEMA obligated funds before the administrative plan was approved.

The Director, FEMA Region VIII, should require the timely submission and approval of HM Administrative Plans to meet Federal requirements, and ensure that project funding is not approved until the administrative plan is approved.

Management Response and Auditor's Analysis:

The Director, FEMA Region VIII, responded that the State has currently provided all needed Administrative Plans. To ensure that FEMA funds are not obligated in the future before the administrative plan is approved, the Region forwarded a letter dated February 25, 2003, stating that funding will not be approved by FEMA until administrative plans are approved by the Region. Although it is not a State responsibility, the Region will ensure that Mitigation Officers are aware that obligations shall not be made until the State has submitted an approved plan.

The actions taken by management appear adequate to resolve the finding cited, and it has been resolved, pending follow-up audit work that will be conducted at a later date.

B.3 Updating and Distributing Hazard Mitigation Plans

SDDEM had not updated its HM Plans on a timely basis and had not distributed its latest approved plan to entities that could be affected by the plan. These delays occurred because SDDEM had not established sufficient priorities for developing its State-wide mitigation planning. As a result, the State was not operating its HM Grant Program with the latest hazard mitigation information.

Grantees must prepare and implement a hazard mitigation plan and update the plan as necessary. Within 180 days of the date of a disaster declaration, the Grantee must provide FEMA a plan or plan update {44 CFR 206.405 (d)}. The

State agency must ensure that all other appropriate State agencies have the opportunity to participate in the development and implementation of hazard mitigation planning {44 CFR 206.406(c)}. Local participation in hazard mitigation planning is essential because regulation and control of development within hazardous areas normally occur at the local level {44 CFR 206.406(d)}.

We found that SDDEM did not develop, update, and distribute HM Plans consistently. The HM Plan for Disaster Number 1052, declared on May 26, 1995, was not approved until November 25, 1996, or 549 days after the disaster declaration. For Disaster Number 1173 declared on April 7, 1997; Disaster Number 1218 declared on June 1, 1998; and Disaster Number 1280 declared on June 10, 1999, no HM Plans were developed, updated, or distributed until November 27, 2000. A tornado annex to the previously approved 1996 plan was approved on May 6, 1999. No documentation was available to show that SDDEM requested extensions to the 180-day timeframe for the above disasters.

We did find that for Disaster Number 1330 declared on May 19, 2000, and Disaster Number 1375 declared on May 17, 2001, SDDEM had prepared HM Plans and FEMA had approved the plans within established timeframes.

FEMA approved the current South Dakota HM Plan on February 28, 2002. The plan is very detailed and should be an effective tool in managing the program. However, we found that SDDEM had not distributed this approved plan to all State agencies, local governments, and private sector entities that could be affected by the plan.

Conclusion and Recommendations:

SDDEM did not update its HM Plans on a timely basis and did not distribute its most recent approved plan to all entities that could be affected by the plan.

The Director, FEMA Region VIII, should:

1. Require SDDEM to develop or update HM Plans and submit them to FEMA for approval within prescribed timeframes.
2. Require SDDEM to distribute the 2001 HM Plan to all entities that have an interest in hazard mitigation.

Management Response and Auditor's Analysis:

The Director, FEMA Region VIII, responded that the State has now provided all required Hazard Mitigation Plans. Also, State officials will ensure that HM Plans are updated and filed with the Region in a timely manner.

The Director, FEMA Region VIII, responded that the State will distribute the 2001 HM Plan to all State agencies that have a part in the HM plan by September 30, 2003. The State will provide the Region with the distribution list.

The actions taken and planned by management appear adequate to resolve the finding cited, and it has been resolved, pending follow-up audit work that will be conducted at a later date.

B.4 Lack of Documentation to Support Payments to Sub-grantees

SDDEM made payments to sub-grantees without proper documentation to support actual costs incurred or certifications that source documents exist to support incurred costs. As a result, SDDEM did not have adequate assurance that program funds were used to reimburse sub-grantees for actual costs incurred and expenditures were in compliance with restrictions and prohibitions of applicable statutes.

Accounting records must be supported by source documents such as canceled checks, paid bills, payrolls, time and attendance reports, and contract and sub-grant award documents {44 CFR 13.20(b)(6)}. Fiscal controls and accounting procedures of the State and its sub-grantees must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes {44 CFR 13.20(a)(2)}.

Our reviews of reimbursements to HM sub-grantees found that SDDEM had not always requested documentation or certifications from sub-grantees to support actual costs incurred. We found that reimbursements were made to some sub-grantees based on projected estimates of costs or for expenses distributed between PA, HM, and Community Development Block Grant funds without explanations as to the basis for the distribution of costs.

For example, one sub-grantee submitted payment claims totaling \$653,752 to cover the cost of construction work on secondary roads. The sub-grantee received payment for the full amount of the claims, however, the support for the \$300,903 of this amount was limited to the original cost estimates contained in the applicant files. The sub-grantee did not provide documents showing actual

cost for this amount. SDDEM officials stated that because the \$300,903 claimed by the sub-grantee was not greater than the original cost estimates, reimbursements could be made without supporting source documents.

Although Federal regulations require sufficient supporting documentation to establish that funds were not used in violation of the restrictions and prohibitions of applicable statutes, they do not require the grantee to maintain the documentation. To meet these regulatory requirements, the grantee could accept certifications from sub-grantees that source documents exist. Such certifications are subject to verification by the grantee. However, SDDEM was disbursing funds without source documentation or certifications from sub-grantees.

Conclusion and Recommendations

SDDEM made payments to sub-grantees without sufficient supporting documentation or certifications stating that source documentation is available to support actual costs incurred.

The Director, FEMA Region VIII, should require SDDEM to:

1. Obtain the supporting documentation for the \$300,903 claimed without adequate support and request a refund for any unsupported amounts.
2. Ensure that supporting documentation or certifications that supporting documentation exists are obtained from sub-grantees before paying future claims.

Management Response and Auditor's Analysis:

The Director, FEMA Region VIII, responded that although not specifically identified, the region believes that the disputed costs are for Day County for Disaster Number 1173. If so, the supporting documentation has been submitted and is currently under review by the Region. If the documentation is not adequate, FEMA will continue to work with the State until the project can be closed, including recoupment of ineligible costs.

The cost in question is related to Day County and State officials were advised of this fact on March 27, 2003. The actions being taken and planned by management appear adequate to resolve the recommendation, and it has been resolved, pending follow-up audit work that will be conducted at a later date.

The Director, FEMA Region VIII, responded that the situation disclosed during the audit is the only time that the State and Region are aware of payments being made on estimates.

The response received is not sufficient to correct the finding cited. No corrective actions have been provided to allow for the recommendation to be resolved. One solution would be to include a provision in the internal control procedures, discussed in the response to finding A.1, which outlines the policy of the Region and State regarding the support required for the payment of claims. The recommendation can be resolved when the procedures are issued.

V. ATTACHMENTS

Schedule of Source and Application of Funds Attachment A
South Dakota Division of Emergency Management
Disaster Assistance Grant Programs

As of September 30, 2001

All Disasters Numbers 1052 through 1375

| | Public Assistance Grants | Individual & Family Grants | Hazard Mitigation Grants | Total Disaster Grants |
|-----------------------------|---|---|---|--------------------------------------|
| <u>Award Amounts</u> | | | | |
| Federal Share | \$59,606,764 | \$2,266,709 | \$12,495,547 | \$74,369,020 |
| Local Match/State Share | <u>\$10,624,804</u> | <u>\$755,570</u> | <u>\$4,165,183</u> | <u>\$15,545,557</u> |
| Total Award Amount | <u>\$70,231,568</u> | <u>\$3,022,279</u> | <u>\$16,660,729</u> | <u>\$89,914,576</u> |

Source of Funds

| | | | | |
|------------------------------|----------------------------|---------------------------|----------------------------|----------------------------|
| Federal Share | \$58,835,929 | \$2,266,709 | \$8,150,359 | \$69,252,997 |
| Local Match/State Share | <u>\$9,887,718</u> | <u>\$731,133</u> | <u>\$2,657,288</u> | <u>\$13,276,139</u> |
| Total Source of Funds | <u>\$68,723,647</u> | <u>\$2,997,842</u> | <u>\$10,807,647</u> | <u>\$82,529,136</u> |

Application of Funds

| | | | | |
|-----------------------------------|----------------------------|---------------------------|----------------------------|----------------------------|
| Federal Share | \$58,837,252 | \$2,266,709 | \$8,152,791 | \$69,256,752 |
| Local Match/State Share | <u>\$9,887,718</u> | <u>\$731,133</u> | <u>\$2,657,288</u> | <u>\$13,276,139</u> |
| Total Application of Funds | <u>\$68,724,970</u> | <u>\$2,997,842</u> | <u>\$10,810,079</u> | <u>\$82,532,891</u> |

Balance of Federal

| | | | | |
|-------------------------------|------------------------|-------------------|------------------------|------------------------|
| <u>Funds On Hand *</u> | <u>-\$1,323</u> | <u>\$0</u> | <u>-\$2,432</u> | <u>-\$3,755</u> |
|-------------------------------|------------------------|-------------------|------------------------|------------------------|

* The South Dakota Division of Emergency Management issued State Checks an average of 3 days before the drawdown of funds from Smartlink were received in the State's treasury; therefore, the Balance of Federal Funds on Hand as of September 30, 2001, was negative for some disaster grant programs as of September 30, 2001.

Schedule of Source and Application of Funds Attachment A-1
South Dakota Division of Emergency Management
Disaster Assistance Grant Programs

As of September 30, 2001

| |
|--|
| Disaster Number 1052 - Declaration Date May 26, 1995 - Flooding |
|--|

| | Public Assistance Grants | Individual & Family Grants | Hazard Mitigation Grants | Total Disaster Grants |
|-----------------------------|--------------------------------|----------------------------------|--------------------------------|-----------------------------|
| <u>Award Amounts</u> | | | | |
| Federal Share | \$11,984,644 | \$0 | \$2,915,339 | \$14,899,983 |
| Local Match/State Share | <u>\$3,994,881</u> | <u>\$0</u> | <u>\$971,780</u> | <u>\$4,966,661</u> |
| Total Award Amount | <u>\$15,979,525</u> | <u>\$0</u> | <u>\$3,887,119</u> | <u>\$19,866,644</u> |

Source of Funds

| | | | | |
|------------------------------|----------------------------|-------------------|---------------------------|----------------------------|
| Federal Share | \$11,984,644 | \$0 | \$2,687,144 | \$14,671,788 |
| Local Match/State Share | <u>\$3,827,706</u> | <u>\$0</u> | <u>\$894,810</u> | <u>\$4,722,516</u> |
| Total Source of Funds | <u>\$15,812,350</u> | <u>\$0</u> | <u>\$3,581,954</u> | <u>\$19,394,304</u> |

Application of Funds

| | | | | |
|-----------------------------------|----------------------------|-------------------|---------------------------|----------------------------|
| Federal Share | \$11,984,644 | \$0 | \$2,687,144 | \$14,671,788 |
| Local Match/State Share | <u>\$3,827,706</u> | <u>\$0</u> | <u>\$894,810</u> | <u>\$4,722,516</u> |
| Total Application of Funds | <u>\$15,812,350</u> | <u>\$0</u> | <u>\$3,581,954</u> | <u>\$19,394,304</u> |

**Balance of Federal
Funds On Hand**

| | | | |
|------------|------------|------------|------------|
| <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
|------------|------------|------------|------------|

Schedule of Source and Application of Funds Attachment A-2
South Dakota Division of Emergency Management
Disaster Assistance Grant Programs

As of September 30, 2001

| |
|---|
| Disaster Number 1173 - Declaration Date April 7, 1997 - Severe Flooding, Winter Storms, High Winds, and Ice |
|---|

| | Public Assistance Grants | Individual & Family Grants | Hazard Mitigation Grants | Total Disaster Grants |
|--|-----------------------------------|----------------------------------|-----------------------------------|-----------------------------------|
| <u>Award Amounts</u> | | | | |
| Federal Share | \$35,518,722 | \$1,194,547 | \$7,957,287 | \$44,670,556 |
| Local Match/State Share | <u>\$2,595,457</u> | <u>\$398,182</u> | <u>\$2,652,429</u> | <u>\$5,646,068</u> |
| Total Award Amount | <u><u>\$38,114,179</u></u> | <u><u>\$1,592,729</u></u> | <u><u>\$10,609,716</u></u> | <u><u>\$50,316,624</u></u> |
| <u>Source of Funds</u> | | | | |
| Federal Share | \$35,489,732 | \$1,194,547 | \$5,463,215 | \$42,147,494 |
| Local Match/State Share | <u>\$2,348,019</u> | <u>\$379,221</u> | <u>\$1,762,478</u> | <u>\$4,489,718</u> |
| Total Source of Funds | <u><u>\$37,837,751</u></u> | <u><u>\$1,573,768</u></u> | <u><u>\$7,225,693</u></u> | <u><u>\$46,637,212</u></u> |
| <u>Application of Funds</u> | | | | |
| Federal Share | \$35,489,732 | \$1,194,547 | \$5,465,647 | \$42,149,926 |
| Local Match/State Share | <u>\$2,348,019</u> | <u>\$379,221</u> | <u>\$1,762,478</u> | <u>\$4,489,718</u> |
| Total Application of Funds | <u><u>\$37,837,751</u></u> | <u><u>\$1,573,768</u></u> | <u><u>\$7,228,125</u></u> | <u><u>\$46,639,644</u></u> |
| <u>Balance of Federal Funds On Hand</u> | | | | |
| | <u><u>\$0</u></u> | <u><u>\$0</u></u> | <u><u>-\$2,432</u></u> | <u><u>-\$2,432</u></u> |

Schedule of Source and Application of Funds Attachment A-3
South Dakota Division of Emergency Management
Disaster Assistance Grant Programs

As of September 30, 2001

| |
|--|
| Disaster Number 1218 - Declaration Date June 1, 1998 - Severe Storms, Tornadoes, and Flooding |
|--|

| | Public Assistance Grants | Individual & Family Grants | Hazard Mitigation Grants | Total Disaster Grants |
|-----------------------------|--------------------------------|----------------------------------|--------------------------------|-----------------------------|
| <u>Award Amounts</u> | | | | |
| Federal Share | \$4,406,848 | \$327,598 | \$1,313,781 | \$6,048,227 |
| Local Match/State Share | \$1,468,949 | \$109,199 | \$437,927 | \$2,016,076 |
| Total Award Amount | \$5,875,797 | \$436,797 | \$1,751,708 | \$8,064,303 |

Source of Funds

| | | | | |
|------------------------------|--------------------|------------------|------------|--------------------|
| Federal Share | \$4,406,848 | \$327,598 | \$0 | \$4,734,446 |
| Local Match/State Share | \$1,406,927 | \$114,990 | \$0 | \$1,521,917 |
| Total Source of Funds | \$5,813,775 | \$442,588 | \$0 | \$6,256,363 |

Application of Funds

| | | | | |
|-----------------------------------|--------------------|------------------|------------|--------------------|
| Federal Share | \$4,406,848 | \$327,598 | \$0 | \$4,734,446 |
| Local Match/State Share | \$1,406,927 | \$114,990 | \$0 | \$1,521,917 |
| Total Application of Funds | \$5,813,775 | \$442,588 | \$0 | \$6,256,363 |

**Balance of Federal
Funds On Hand**

| | | | |
|------------|------------|------------|------------|
| \$0 | \$0 | \$0 | \$0 |
|------------|------------|------------|------------|

Schedule of Source and Application of Funds
South Dakota Division of Emergency Management
Disaster Assistance Grant Programs

Attachment A-4

As of September 30, 2001

| |
|---|
| Disaster Number 1280 - Declaration Date June 10, 1999 - Severe Storm Tornadoes, and Flooding |
|---|

| | Public Assistance Grants | Individual & Family Grants | Hazard Mitigation Grants | Total Disaster Grants |
|--|--------------------------------|----------------------------------|--------------------------------|-----------------------------|
| <u>Award Amounts</u> | | | | |
| Federal Share | \$801,100 | \$744,564 | \$309,140 | \$1,854,804 |
| Local Match/State Share | <u>\$267,033</u> | <u>\$248,188</u> | <u>\$103,047</u> | <u>\$618,268</u> |
| Total Award Amount | <u>\$1,068,133</u> | <u>\$992,752</u> | <u>\$412,187</u> | <u>\$2,473,072</u> |
| <u>Source of Funds</u> | | | | |
| Federal Share | \$801,100 | \$744,564 | \$0 | \$1,545,664 |
| Local Match/State Share | <u>\$253,424</u> | <u>\$236,922</u> | <u>\$0</u> | <u>\$490,346</u> |
| Total Source of Funds | <u>\$1,054,524</u> | <u>\$981,486</u> | <u>\$0</u> | <u>\$2,036,010</u> |
| <u>Application of Funds</u> | | | | |
| Federal Share | \$801,100 | \$744,564 | \$0 | \$1,545,664 |
| Local Match/State Share | <u>\$253,424</u> | <u>\$236,922</u> | <u>\$0</u> | <u>\$490,346</u> |
| Total Application of Funds | <u>\$1,054,524</u> | <u>\$981,486</u> | <u>\$0</u> | <u>\$2,036,010</u> |
| <u>Balance of Federal Funds On Hand</u> | | | | |
| | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |

Schedule of Source and Application of Funds Attachment A-5
South Dakota Division of Emergency Management
Disaster Assistance Grant Programs

As of September 30, 2001

| |
|--|
| Disaster Number 1330 - Declaration Date May 19, 2000 - Severe Winter Storms, Flooding, Landslides, and Mudslides |
|--|

| | Public Assistance Grants | Individual & Family Grants | Hazard Mitigation Grants | Total Disaster Grants |
|-----------------------------|--------------------------------|----------------------------------|--------------------------------|-----------------------------|
| <u>Award Amounts</u> | | | | |
| Federal Share | \$1,896,824 | \$0 | \$0 | \$1,896,824 |
| Local Match/State Share | <u>\$632,275</u> | <u>\$0</u> | <u>\$0</u> | <u>\$632,275</u> |
| Total Award Amount | <u>\$2,529,099</u> | <u>\$0</u> | <u>\$0</u> | <u>\$2,529,099</u> |

Source of Funds

| | | | | |
|------------------------------|---------------------------|-------------------|-------------------|---------------------------|
| Federal Share | \$1,602,436 | \$0 | \$0 | \$1,602,436 |
| Local Match/State Share | <u>\$534,145</u> | <u>\$0</u> | <u>\$0</u> | <u>\$534,145</u> |
| Total Source of Funds | <u>\$2,136,581</u> | <u>\$0</u> | <u>\$0</u> | <u>\$2,136,581</u> |

Application of Funds

| | | | | |
|-----------------------------------|---------------------------|-------------------|-------------------|---------------------------|
| Federal Share | \$1,602,436 | \$0 | \$0 | \$1,602,436 |
| Local Match/State Share | <u>\$534,145</u> | <u>\$0</u> | <u>\$0</u> | <u>\$534,145</u> |
| Total Application of Funds | <u>\$2,136,581</u> | <u>\$0</u> | <u>\$0</u> | <u>\$2,136,581</u> |

**Balance of Federal
Funds On Hand**

| | | | |
|------------|------------|------------|------------|
| <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
|------------|------------|------------|------------|

Schedule of Source and Application of Funds Attachment A-6
South Dakota Division of Emergency Management
Disaster Assistance Grant Programs

As of September 30, 2001

| |
|---|
| Disaster Number 1375 - Declaration Date May 17, 2001 - Severe Winter Storms, Flooding, and Ice Jams |
|---|

| | Public Assistance Grants | Individual & Family Grants | Hazard Mitigation Grants | Total Disaster Grants |
|-----------------------------|--------------------------------|----------------------------------|--------------------------------|-----------------------------|
| <u>Award Amounts</u> | | | | |
| Federal Share | \$4,998,626 | \$0 | \$0 | \$4,998,626 |
| Local Match/State Share | \$1,666,209 | \$0 | \$0 | \$1,666,209 |
| Total Award Amount | \$6,664,835 | \$0 | \$0 | \$6,664,835 |

Source of Funds

| | | | | |
|------------------------------|--------------------|------------|------------|--------------------|
| Federal Share | \$4,551,169 | \$0 | \$0 | \$4,551,169 |
| Local Match/State Share | \$1,517,497 | \$0 | \$0 | \$1,517,497 |
| Total Source of Funds | \$6,068,666 | \$0 | \$0 | \$6,068,666 |

Application of Funds

| | | | | |
|-----------------------------------|--------------------|------------|------------|--------------------|
| Federal Share | \$4,552,492 | \$0 | \$0 | \$4,552,492 |
| Local Match/State Share | \$1,517,497 | \$0 | \$0 | \$1,517,497 |
| Total Application of Funds | \$6,069,989 | \$0 | \$0 | \$6,069,989 |

**Balance of Federal
Funds On Hand**

| | | | |
|----------|-----|-----|-----|
| -\$1,323 | \$0 | \$0 | \$0 |
|----------|-----|-----|-----|

Attachment B

**SOUTH DAKOTA DIVISION OF EMERGENCY MANAGEMENT
MANAGEMENT COMMENTS**



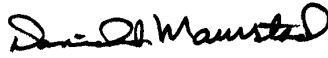
Federal Emergency Management Agency

Region VIII
Denver Federal Center, Building 710
Box 25267
Denver, CO 80225-0267

R8-RR-IF

March 3, 2003

MEMORANDUM FOR: Tonda L. Hadley
Central District Audit Manager
Office of the Inspector General

FROM: David I. Maurstad 
Regional Director

SUBJECT: Draft Audit Report for the State of South Dakota Administration of
Disaster Assistance Funds

In accordance with your February 4, 2002, request, the State of South Dakota and Region VIII have compiled the attached responses to the Draft Audit Report for the State of South Dakota Administration of Disaster Assistance Funds. Our response includes actions already in place or planned, including target dates when appropriate.

The State of South Dakota's administration of disaster assistance has undergone a major reengineering since the earlier events that were audited, both in personnel and procedures. Many of the reported findings pertain to practices and policies that are no longer in place. The audit report does not incorporate current practices that resolve many of the reported findings unique to the older events. As a result, many of the reported findings are not relevant to current conditions.

Should you have any questions concerning our comments, please contact Dawn Jacoby at 303-235-4874.

Attachments

cc: K. Turman, SD DEM

**Responses to the Draft Audit Report for the
State of South Dakota Administration of Disaster Assistance Funds**

Finding A.1 SD DEM had not documented its internal control procedures or established a means of periodically evaluating the effectiveness of its internal controls.

SD DEM will complete an internal control procedure and submit it to Region by September 30, 2003. The plan will document procedures already in place that ensure effective controls and accountability. This plan will be reviewed annually by the State for any needed updates. The annual review of the plan will be documented.

As the audit report indicated that procedures in place are adequate, the Region concurs that the State response will resolve the finding.

Finding B.1 SD DEM did not always perform and document inspections of large projects, did not require sub-grantees to submit periodic progress reports, and did not always submit required quarterly progress reports to FEMA.

1. Perform and document the required close-out inspections for the two cited sub-grantees.

The State and Region are unaware of a requirement in the regulations or the State's PA Plan requiring on-site inspections for all large projects. Closeout procedures in place require sub-grantees to provide certification that the requirements of the grant have been met. On-site inspections, although not required, are randomly performed by the State, and if deemed necessary, by the Region.

The State will provide the certification for the two sub-grantees when the projects and sub-grantees are identified. Although requested in the State's exit conference and referenced as "cited" in the report, the information has not been provided in the audit report.

The Region agrees that the certifications, when provided, will resolve the finding.

2. Prepare and submit quarterly reports to FEMA.

The State has provided timely quarterly reporting to the Region in all current disasters. Currently, all large projects have received final funding. The State's approved PA Plan requires the timely submittal of the quarterly reports.

The Region agrees that the State response resolves the finding. We would also like to note that the State has consistently improved their reporting. Overall, the State has performed extraordinarily well in providing quarterly reports for recent events. In addition, the working

relationship with the State was such that any financial or program issues could be resolved in absence of the reports.

3. Document the results of its ongoing monitoring of sub-grantees and final inspections of large projects.

Documentation of monitoring of sub-grantees is done in the form of a quarterly report. Sub-grantees are not required to submit a written progress report on projects. Monitoring is done by telephone calls between the grantee and sub-grantee. All final inspections of large projects are documented by the close-out package that is submitted to Region.

The State will modify the PA Administrative Plan to include documentation of all pertinent progress conversations with sub-grantees by September 30, 2003.

The Region concurs that modification of the PA Administrative Plan will resolve the finding.

Finding B.2 SD DEM did not always prepare or update its HM Administrative Plans after each disaster declaration, and FEMA obligated funds before the administrative plan was approved.

As demonstrated to the audit team, the State is current on their Administrative Plan. To ensure that FEMA funds are not obligated before the administrative plan is approved, the attached letter dated February 25, 2003, was sent reminding the State that following a disaster declaration, they will be required to submit an updated Administrative Plan, and that funds will not be obligated in the future unless the plan is approved.

Region concurs with the State that this finding is resolved. Although not a State responsibility, the Region will ensure that Mitigation Officers are aware that obligations shall not be made until the State has submitted an approved plan.

Finding B.3 SD DEM did not update its HM Plans on a timely basis and did not distribute its most recent approved plan to all entities that could be affected by the plan.

1. Require SD DEM to develop to or update HM Plans within prescribed timeframes.

The State is current on their HM Plan. Regulations and the approved Administrative Plan require the State to submit an HM Plan. The State will ensure that HM plans are updated and filed with the Region in a timely manner.

The Region agrees that the State response resolves the finding.

2. Require SD DEM to distribute the 2001 HM Plan to all entities that have an interest in hazard mitigation.

The State will distribute this plan to all State agencies that have a part in the HM plan by September 30, 2003. They will provide the Region with the distribution list.

The Region concurs that the State response will resolve the finding.

Finding B.4 SD DEM made payments to sub-grantees without sufficient supporting documentation or certification stating that source documentation is available to support actual costs incurred.

1. Obtain the supporting documentation for the \$300,903 claimed without adequate support and request a refund for any unsupported amounts.

Although not specifically identified, we believe that the disputed costs are for Day County in DR-1173. If so, the supporting documentation has been submitted and is currently under review by Region. If the documentation is not adequate, FEMA will continue to work with the State until the project can be closed, including recoupment of ineligible costs.

If Day County is the sub-grantee in question, the Region concurs that the finding is resolved.

2. Ensure that supporting documentation or certifications that supporting documentation exists are obtained from sub-grantees before paying future claims.

The State demonstrated to the auditor that supporting documentation is always reviewed prior to providing funding to sub-grantees, as required in the approved Administration Plan. The situation with Day County above is the one and only time that the State and Region are aware of where payment was made on estimates.

The Region concurs that the State response resolves the finding.



Federal Emergency Management Agency

Region VIII
Denver Federal Center, Building 710
Box 25267
Denver, CO 80225-0267

February 25, 2003

John A. Berheim, Director
Division of Emergency Management
500 East Capitol Street
Pierre, SD 57501

Re: Administration Plans

Dear Mr. Berheim:

Per the audit findings by Leon Snead & Company dated January 2003, FEMA was sited for funding projects prior to receiving updated State administration plans for five disasters. The State administration plan is necessary for managing the Hazard Mitigation Grant Program (HMGP). If a current plan does not require changes to meet the disaster, the State should notify FEMA within 90 days after a disaster declaration, otherwise, an updated plan is required.

In the past, FEMA has approved projects prior to receiving an updated administration plan from the State. Beginning with the next disaster declaration, FEMA will no longer fund projects prior to receiving an updated State administration plan per 44 CFR 206.437(d)[The State must submit the administrative plan to the Regional Director for approval. Following each major disaster declaration, the State shall prepare any updates, amendments, or plan revisions required to meet current policy guidance or changes in the administration of the HMGP. Funds shall not be awarded until the State administration plan is approved by the FEMA Regional Director.].

The purpose of the audit is to identify weaknesses in the administration of the HMGP and to allow both FEMA and the State to make improvements. By working together, we can accomplish this goal.

If you have any questions, please call me at 303/235-4814 or Mike Hillenburg at 303/235-4875.

Sincerely,

A handwritten signature in black ink, appearing to read "Steve L. Olsen", is written over the typed name.

Steve L. Olsen, Director
Federal Insurance and Mitigation Division

COPY

**DEPARTMENT OF MILITARY
AND VETERANS AFFAIRS
EMERGENCY MANAGEMENT**

500 East Capitol
Pierre, South Dakota 57501-5070
(605) 773-3231
FAX: (605) 773-3580

February 25, 2003

COPY

Ms. Dawn Jacoby
FEMA Region VIII
Denver Federal Center, Building 710
PO Box 25267
Denver, CO 80225-0267

RE: Audit Finding Comments

Dear Ms. Jacoby:

We were disappointed in the audit report from Leon Snead & Company because in many instances noted in the audit conclusion and recommendations, we had already remedied the problem in a subsequent disaster that they audited, but there is no mention that the problem had been remedied. For this reason we feel that some of recommendations within the report were already taken care of at the time the auditors were here. We don't feel that we need to send documentation to the Region showing that the remedy has taken place, because the auditors looked at the remedy when they were here doing the audit.

Also, we were disappointed in a number of instances in the report that make mention of needing to remedy a problem with numerous sub-grantees; however, there is no place in the report that mentions what sub-grantees they are talking about. In the exit conference we were told by the auditors that they will check into that and let us know what sub-grantees they are referring to, but we never did get a call or a letter to tell us what sub-grantees they were referring to.

I will now go onto make my comments about the conclusions and recommendations that are referenced in the audit.

Section A.1: We will complete an internal control procedures plan by September 30, 2003. We will review this plan annually for any needed updates.

Section B.1:

1. This finding does not mention what sub-grantees they are talking about that we need to perform a final inspection on. We asked for the auditors to check on this, but we never did here from them after the exit conference. We are assuming that it is two large projects from DR-1173-SD. This disaster has since been closed, so we don't feel that it would change anything in that disaster if we went back and inspected them at this time. Also, we don't know of any regulation that says we have to do an actual physical inspection of the large project.

2. Quarterly reports were not done for DR-1173-SD, and DR-1218-SD toward the end of the disaster per a verbal agreement with the Region. This may have been wrong, but that is why we did not do those quarterly reports. We have submitted every quarterly report on every disaster since then, so we feel that this is not an issue anymore.

3. Documentation of monitoring of sub-grantees is done in the form of a quarterly report. This is the only regulation that is in CFR 44 that pertains to monitoring of large projects. Sub-grantees are not required by any regulation to submit a written progress report on large projects. For that reason, we do not require our sub-grantees with large projects to submit a written progress report. This is done by monitoring of the project through telephone calls with the sub-grantee.

Final inspections are documented by the close-out information that is sent into the Region for review.

Section B.2:

This audit finding is one that was shown to the auditors during the audit that it was remedied. This problem occurred for some older disasters but is no longer an issue.

Section B.3:

1. This is another audit finding that was shown to the auditors that it was remedied. This problem happened in the past and is no longer an issue.

2. We will distribute this plan to all State agencies that have a part in the HM plan by September 30, 2003.

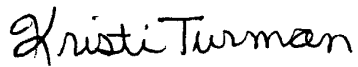
Section B.4:

1. This is one of the findings on which the auditor's did not get back to us, so we don't know which sub-grantee it was that they were referring to. We are assuming that this was Day County in DR-1173-SD and if so, all documentation has been sent to the Region.

2. Before they left, we showed the auditors that we do review supporting documentation before we pay claims. Paying on estimates was done on only one project and is no longer an issue.

If you have any questions about our comments, please feel free to contact Jason Bauder at 605-773-3231.

Sincerely,



KRISTI H. TURMAN
Deputy Director

cc: Donna Tucker
FEMA Region VIII